

15 March 1984

MEMORANDUM FOR THE RECORD

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FROM:

[redacted]
Assistant to the DD/Pers/SP

SUBJECT: House Hearing on Supplemental Retirement Program;
13 March 1984

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1. On 13 March 1984, the undersigned and [redacted] (OLL) attended the fourth in a series of five hearings on a Supplemental Retirement System sponsored by the House Committee on Post Office and Civil Service chaired by Congressman William D. Ford. Testimony at this hearing was from representatives from several Federal Employee Associations, the National Association of Retired Federal Employees and a public policy organization specializing in the study of pay and benefits.

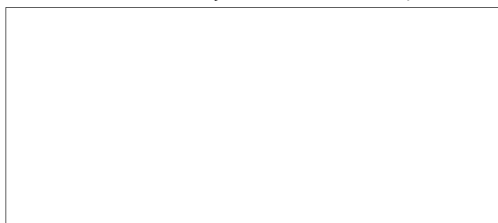
2. For the most part, the hearing followed closely the scheduled agenda and formal written testimony (copies attached) with the latter being either read orally or briefly summarized by the testifiers. Of particular importance is the sentiment expressed to the association groups by Ford, whereby he chastized them for being too willing to accept the status quo. He spoke for over 30 minutes of his belief and conviction that the current situation provides a genuine opportunity to improve the federal retirement systems, that without the passage of the Social Security amendments and the resulting requirement for a supplemental plan, only debates over cutbacks in benefits would be taking place at this time with OMB and OPM. As it stands, a real opportunity has been opened up for the first time to say what a retirement system should do and what the requirements are. He felt that the time was long past where the government can treat managers the same as low-graded personnel and that perhaps the needs of short-term versus longer-term employees need to be addressed differently. He went on to say that he did not believe the current system to be efficient enough. Improvements were needed and he did not see enough fire in the bellies of the employee groups testifying before the committee--too much of a willingness to accept status quo. He stated that money was going to be tight and that gaining improvements would not be easy. He asked the organizations to look at the entire issue and needs and think about what type of system will work to meet employees' needs (long-term, short-term etc.). He further stated that the characteristics of the system must be reviewed and that the issues were way past replicating the old system in the new one.

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3. Ford's comments were well received by the associations representatives who stated that their comments were intended to mean that a lessening of benefits would be unacceptable. The representatives of the Federally Employed Women's organization stated this was particularly true of females in the work force, citing the low salary and pension figures contained in her formal testimony.

4. In addition to Congressman Ford, Committee members also attending the House Hearing were: Donald J. Albosta, Mary Rose Oakar, and Frank Wolf.

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Copies to
DP/SP

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28 February 1984

MEMORANDUM FOR THE RECORD

SUBJECT: House Hearing on Supplemental Retirement Program
23 February 1984

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1. On 23 February 1984, [] (OLL) and the undersigned attended a hearing on "Supplemental Retirement System" sponsored by the House Committee on Post Office and Civil Service chaired by Congressman William D. Ford. This was the first in a series of scheduled hearings by this committee on the supplemental retirement issue. The stated purpose of these initial hearings is to focus on five general areas.

- ° Comparability Analysis
- ° General Design
- ° Eligibility and Inflation Protection
- ° Financing
- ° Coverage

In actuality, this meeting served to highlight the basic differences in philosophy between the House Committee and the Administration on key retirement issues such as benefit levels, funding, and appropriate retirement age. The House clearly comes down on the side of maintaining existing benefit levels while the Administration in the person of Donald Devine (D/OPM) states categorically that reductions will be necessary. (Parts of the verbal exchange between Devine and Ford are summarized in paragraph six (6) below.) The meeting also served to get the Administration on record for the first time regarding their thinking on supplemental retirement. This will be helpful as we develop internal Agency strategy.

2. Hay Associates Representatives, which included Edwin Hustead, and Devine made formal presentations at this hearing. Their prepared statements are attached and essentially represent the formal testimony presented to the committee. (Committee representatives included Congressman Ford, Gene Taylor, William Dannemeyer, Frank Wolfe, Connie Mack, William Clay, Donald Albosta, and Mary Rose Oakar.)

3. In his opening comments, Chairman Ford said he expected that the hearings will continue into 1985. He emphasized his view that the "plan must be designed in a manner which will not threaten in any way the integrity of the existing Federal Retirement Systems". He stated that these were in essence, a contract,

and that there was a moral obligation to ensure continued adherence to the provisions. He further stated that the new supplemental plan must be compatible with existing systems to preclude a situation where employees working side by side would perceive themselves as being treated differently.

4. Hay Associates representatives provided a general overview of the many items that must be considered in developing a supplemental retirement program. Their report which paralleled the one provided to the Agency by Ed Hustead in January, dealt basically with the following issues:

- ° The types of plans available, i.e., defined benefit versus defined contribution and the pros and cons of each.
- ° Social Security Integration - The various formulas (add-on, offset, step rate, etc.) and methods that could be used to integrate the benefits were described. It was pointed out that one of the first decisions on developing a plan would have to be how much of Social Security "tilt" should be preserved in this integration process.
- ° Retirement age without reduced benefits.
- ° Disability and survivors benefits.
- ° Vesting provisions.
- ° Indexing.

Hay representatives went on to outline their approach to the design of a new retirement plan and discussed the basic differences between the current CSRS system and plans in the private sector. They then elaborated on the uniqueness of the Federal Government situation, citing Social Security integration requirements, budget considerations and funding of the existing systems as examples.

5. Mr. Devine's testimony was basically on oral presentation of his prepared statement (attached--this statement is slightly different than the one provided to the Agency for review. It does acknowledge special interest of CIA on page 10). In that statement he touched on the following issues, some of which became very controversial:

- ° Comparability analysis and his belief that a "Total Compensation Comparability" approach would lead to serve cutbacks in Federal employees pay and benefits. He thus recommended only focusing on the retirement issued at this time.
- ° General Design - He appeared to favor a defined contribution approach because they are fully funded. He cited OPM's survey of Federal employees and a conclusion that Federal employees do not have a uniform opinion on how a retirement system should be structured.

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- ° Eligibility and Inflation Protection - He acknowledged these very likely will be the most controversial and difficult issues. He is convinced that reforms to the current system will have to be made and cited the President's 1984 and 1985 budget proposals as the correct approach to changes. (COLA reductions, increased employee contributions, raising of retirement age, etc.) Although not stated orally he did have included in his prepared statement that special arrangements may be needed for special groups of employees. He included CIARDS and the Foreign Service retirement system in that category.
- ° Funding - He highlighted what he thought were significant deficiencies in the current systems resulting in a \$515 billion unfunded liability. He felt the new retirement plan should be funded on a current basis. He discussed amortization of the current system as necessary to meet future obligations.

6. A great deal of controversy between Chairman Ford and Devine developed over the data and statistics used by Devine and the unfunded liability issue. In answer to a question posed to Hay representatives as to why the unfunded liability was a problem they essentially stated that it was not a problem for the government. It is an important aspect in private industry where companies can easily go out of business, but that was not the case for the Federal government. Devine contended just the opposite, stating his belief that the \$515 billion unfunded liability was an extreme burden to the taxpayers and an unfunded obligation was inconsistent with practice in the private sector. Chairman Ford stated that he thought it was counter productive to include this as part of the issue on the development of a supplemental retirement program and further chastized Devine for his scare tactics using the unfunded liability argument. Ford stated he disagreed with Devine's statements on benefit comparability and saw obvious problems with Devine's information and data. He thought that Devine's presentation did a disservice to the purpose of the committee and that facts were needed, not a compilation of special interests. He stated that notwithstanding his Administration representation, D/OPM has a responsibility to provide a work force that meets the needs of the government and that Devine cannot keep up an adversarial role with the committee. He considered Devine's efforts as unsound personnel practice. Ford continued that no conclusions should be drawn from any statistics until Hay Associates finished their study which incrementally would be in August with final reports in the November/December time frame.

7. Ford also stated for the record that the House study would be coordinated with the Senate to avoid duplication of effort, i.e., the studies should complement each other. He also acknowledged the total complexity of the retirement issue. In addition to the formal testimony the question and answer sessions touched on the following:

- ° Advantages of Social Security to lower-paid short-term employees.
- ° The increase in capital accumulative plans in the private sector.
- ° The types of firms used in the Hay Associates survey - 60% industrial; 40% in finance and investment; 1/3 less than 1,000 employees, representation

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of Fortune 500 companies; broad representation similar to types of employment intended for the survey.

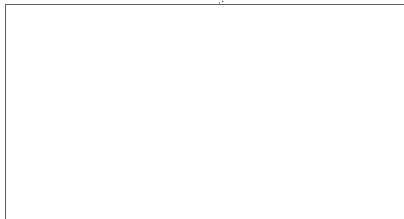
- ° Changes in fringe benefits in the private sector - Increased dental insurance; capital accumulation plan; decrease in medical insurance coverage to more co-insurance. No major changes in retirement area except for additional COLA's in the pensions.

In conjunction with discussions on whether the entire supplemental issue could be studied and resolved by the end of 1985, Hay felt from their standpoint, that was sufficient time. However, Congressman Wolfe suggested that a year's extension should perhaps be considered given the fact that there very likely would be new members of Congress involved after the fall election. There was no further discussion on this suggestion but it could become an issue as the review progresses.

7. It is clear that Ford does not plan to push for any type of legislation until early 1985. This appears to be supported by the timing on the availability of the final Hay report. In any event, it undoubtedly will be several months before any initial conclusions or decision are made by the committee on the parameters and the types of plans to be considered.

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Attachments: a/s



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